

The Notice also seeks comments on issues relating to transition. The Commission acknowledges that there is a difference between the interstate revenue being generated today under current regulation and what would be generated under the proposed cost-based rates and seek comments on how the difference should be calculated, the appropriateness of transition mechanisms, and how to transition.

In addition, the Commission lays out multiple rate structure and implicit support issues which are to be addressed in the proceeding.

As detailed above, it must first be remembered that the drive toward cost-based rates, no matter how costs are defined, is really not possible so long as the current system of subsidies and separations remains in place. An access charge structure which is based on true economic costs cannot develop so long as the rest of the system (intrastate as well as interstate) is thoroughly riddled with rules which prohibit services from being priced based on economic costs. In fact, the term "economic costs" is a misnomer in the context of a structure which assigns costs to differing jurisdictions based on arbitrary separations factors. Thus, U S WEST views the prescriptive approach -- whereby regulations attempt to supplant market forces and drive prices to economic costs as defined by the Commission -- with considerable suspicion and trepidation.

A. The Prescriptive Approach Is Unduly Regulatory In Nature

Our initial criticism of the prescriptive approach is that it is far more regulatory than can be justified under the 1996 Act. As the Commission has consistently recognized, one of the key premises of the 1996 Act is Congress' desire to replace micro-regulation of carrier offerings with market forces. Here the

Commission itself recognizes that there exists a market counterpoint to switched and special access rates in the availability of interconnection -- which must, by law, be priced based on cost plus a profit. Even while restrictions prevent the total substitutability of interconnection for access (which will be necessary until rates have been rebalanced and universal service mechanisms have been implemented to replace all subsidies), the pricing of interconnection will serve as a check on access rates. Pricing of access above interconnection prices will send economic signals to those seeking alternatives to the incumbent LEC's network, and will encourage customer abandonment of incumbent LEC access services. Whenever network elements can be substituted for facilities construction, this will further emphasize the disparity between the subsidizing access rates and the rates which are charged in a competitive market, creating further false economic signals concerning ILEC network bypass. The availability of cost-based interconnection will highlight the amount of the subsidies contained in the prices for access.

ILECs will then have significant market incentives based on the interconnection rules to bring their access prices into line with their costs and competitive reality. The Commission in this docket should concentrate on eliminating the obstacles which regulations have imposed against pricing reflective of true economic costs, and should not use this docket in a manner which actually increases regulatory burdens attendant to access tariffs.

B. Price Cap Rules Should Be Reformed

The prescriptive approach also really is tantamount to abandonment of price cap regulation and a return to rate of return regulation. While the Commission's

price cap regulation has not been without its flaws, it has provided significant incentives to ILECs to improve their productivity -- to the benefit of themselves and the public interest. The prescriptive approach would essentially violate the most fundamental price cap premises -- punishing LEC efficiency gains achieved under the existing price cap regime. For six years the ILECs have been operating and investing under the price cap premise, and changing the ground rules applicable to this investment without countervailing actions to permit full recovery of the investment would be unwise, arbitrary and unlawful. The Commission can, of course, use an exogenous cost adjustment under Section 61.44(c) of its rules to reflect the separations changes which are clearly necessary prior to full access charge reform. However, the Commission clearly cannot use an exogenous cost factor to drive access rates to a level where they do not recover all of the costs assigned through the separations process to the interstate jurisdiction.

It is obvious that the productivity factors currently in effect in the price cap regulatory structure do not take account of the 1996 Act or the ability of carriers to shift much of their traffic to network elements based on costs which were not affected by the separations process. However, the new interconnection regime will reduce the revenue growth and productivity growth of interstate services compared to historical trends (even if there were to be no competitive movement to alternative suppliers of access). Moreover, needed reforms in this docket will further reduce ILEC productivity (as measured on an interstate level). The CCL and TIC revenue growth of the past, for example, was tied to the overall growth in access minutes, and showed up as productivity increases for the ILEC. Flat rated recovery of these

network elements will likewise slow productivity, as the growth in CCL and TIC revenues on a flat rated basis will be less than would have been the case had the structure which existed when the price cap rules were adopted remained in effect. By definition, the new interconnection regime will reduce ILEC productivity. Yet the Notice speaks only of increasing the ILEC productivity factors.⁴⁰

Moreover, as the ILEC loses market share, productivity is also reduced. This reduction in productivity is attributed to loss of economic scale, and the cost of capital investments which cannot be reduced as fast as market share losses are incurred on account of competition. Also, lower margins on services will result in lower productivity growth as each unit of demand contributes less to the overhead cost recovery.

U S WEST recommends that the price cap formula can be significantly improved by adoption of a total factor productivity ("TFP") based on the productivity factor (X factor) developed in the updated study performed by Christensen Associates and placed in this docket as part of the comments of the United States Telephone Association. This recommendation is consistent with the comments filed in the Further Price Cap Review docket (CC No. Docket 94-1 Fourth Notice of Proposed Rulemaking).⁴¹ It is also consistent with the tentative conclusion of the Commission in its First Report and Order⁴² that the TFP method should be used to

⁴⁰ Below, U S WEST proposes a formula which deals with proper recognition of reform of TIC cost recovery in the incumbent LEC's productivity factor.

⁴¹ See Exhibit 2, Comments of U S WEST, CC Docket No. 94-1, filed Jan. 11, 1996.

⁴² The X-Factor represents LEC productivity in the PCI adjustment calculation. In the Matter of Price Cap Performance Review for Local Exchange Carriers, First

calculate the X Factor. This X factor uses data sources which are publicly available and easily verifiable, and which support the criteria specified by the Commission for the development of an appropriate X factor. U S WEST here supports the Commission's tentative decision in the Faith Notice. In addition, should the Commission adopt a TFP based X factor, the serving area size, geography and demographics (including the demand density) of companies must be considered, and the options for X factors must be based on these considerations.

U S WEST also supports "no-sharing" X factor options based on the economies of density. Economies of density are demonstrated when the addition of minutes or lines to existing facilities reduces their overall average cost, spreading the fixed cost over additional units of outputs. Economies of density result from the ability to spread additional capital investment and expenses over increasing volumes on given routes, thus lowering the cost-per-unit of service. X factor options should be established at a threshold, based on publicly available data (e.g., access lines per mile) which an incumbent LEC would use to demonstrate eligibility for a no-sharing option that is lower than the factor calculated using the Christensen study.

The Commission should adopt the X factor resulting from the Christensen study as the starting point for price cap reform. Since the Christensen study is based on historical dates, the X factor reflects a period in time in which the ILECs

Report and Order, 10 FCC Rcd. 8961, 9026-27 ¶ 145 (1995) "First Report and Order", aff'd sub nom. Bell Atlantic Telephone Cos., et al. V. FCC, 79 F.3d 1195 (D.C. Cir. 1996).

attained higher productivity growth than can be expected in the marketplace envisioned under the Act. As part of the Phase 1 relief for incumbent LECs, the X factor should be adjusted to reflect the productivity of the LEC on a forward looking basis (for those services subject to price cap regulation). Of course, for services subject to competition, price cap regulation will not be necessary or justifiable.

C. **Real ILEC Costs Cannot Be Dismissed
 By Adoption Of A Transition Plan**

Should the Commission nevertheless choose to adopt the prescriptive approach, a transition plan would be especially necessary, and the transitional approach suggested by the Commission is not reasonable. A transition would be critical because the prescriptive approach simply reduces revenues by FCC fiat, leaving the gap between access revenues and total expenses assigned to the interstate jurisdiction to be made up elsewhere. Mechanisms for dealing with this shortfall are dealt with elsewhere in these comments, but the prescriptive approach, if taken in a vacuum, would clearly be confiscatory.

The Commission in the Notice recognizes that some transition is necessary under the prescriptive approach, but its approach to transition is flawed for two reasons. First, the approach to transition in the Notice seems to indicate that the differential between interstate costs now assigned to access and access charges based on "economic costs" represents only transitory costs which can be amortized out of existence. This is generally not the case. All costs in the CCL and the TIC, for example, are real costs which U S WEST incurs in providing telephone service in fourteen states. The fact that they are not expended in providing interstate access

is a result of decisions of regulators -- but they support real services and cannot be eliminated without eliminating services which U S WEST is expected to provide. A transition which is based on the assumption that these costs are not real (rather than reflecting the reality that the costs are simply misplaced) would be dangerously wrong. As noted above, local residential rates are priced well below TELRIC -- a subsidy gap which can only be closed via real reform, not transitions.

Second, the Commission does not propose to tie the transitional approaches discussed in the Notice directly to accomplishment of the regulatory reform and rate rebalancing necessary to permit economic pricing. Any transition plan must continue in existence until the subsidy system which now marks the provision of incumbent LEC services has been eliminated -- including rate rebalancing, separations reform, universal service funding replacement of subsidies and depreciation reform. Otherwise the transition could end before the reforms will have been completed, creating a situation which would be untenable (and arbitrary).

IV. REFORMING THE ACCESS RATE STRUCTURE

The access reform plan U S WEST proposes here will immediately address significant implicit support issues, correct for prior misallocations and misassignments, provide competitive parity through structural and pricing flexibility, and maintain the support for intrastate services inherent in interstate access -- support that must be maintained until Separations Reform is undertaken and completed, until the full effects of local interconnection are known, and until the new Universal Service Fund is established and operational.

The U S WEST plan includes the replacement of the current CCL per MOU charge with a flat-rate, per-loop recovery from IXC's; elimination of the Transport Interconnection Charge ("TIC") through reassignment of costs to appropriate transport elements and a support mechanism; elimination of the access exemption for enhanced service providers; and pricing and structural flexibility which will enable a market-based approach for switching and transport.

A. Carrier Common Line/
End User Common Line Charge ("EUCL") (§§57-67)

1. CCL

The Commission seeks to revise the current CCL charge structure so that incumbent price cap LECs are no longer required to recover any of the non-traffic sensitive costs of the loop from IXC's on a traffic-sensitive basis.⁴³ Two possible alternatives include: 1) allowing I LECs to recover the costs not recovered from charges through a flat, per-line charge paid by IXC's; or 2) recovery of interstate non-traffic sensitive loops costs through "bulk billing" in which carriers are assessed a charge based upon their percentage of interstate MOU or revenue.⁴⁴ U S WEST agrees that non-traffic sensitive costs must be recovered on a flat-rate basis.

When the United States District Court for the District of Columbia approved the Modification of Final Judgment in 1984 and AT&T was divested of its local exchange subsidiaries, the local service support which had previously been provided from interstate long distance service was shifted to new interstate access rate

⁴³ Notice ¶ 60.

⁴⁴ Id.

elements to be charged by LECs. Movement of support for universal service from the interstate toll rates to LEC access rates ensured the continued support of local services by IXC's. Support for residential loop costs was also established by dividing the loop cost recovery between the flat-rated EUCL (assessed to end users) and the usage-sensitive CCL charge (charged to carriers). These access rates were based on the costs assigned to the interstate jurisdiction by the separations process and were cost-based and lawful.

The current interstate access rate structure, although modified through various proceedings, remains directly related to the historical rules and regulations, which supported lower prices primarily for intrastate services (but also certain interstate carriers) through higher prices charged for interstate carrier access services. This support is often implicit. That is, it is hidden from view. Nonetheless, it is real. The cost-based, lawful, and required support will continue to be necessary to support local service at rates mandated by regulators until such time as the Commission resolves the issues associated with separations reform and appropriately develops and implements a plan to deal with universal service. Until these reforms are completed these subsidies are required to be explicit not implicit.

CCL, which is currently charged on a MOU basis to IXC's, is comprised of unrecovered non-traffic sensitive ("NTS") loop costs, costs associated with pay telephones,⁴⁵ and Long Term Support ("LTS") contributions to the National Exchange Carrier Association ("NECA") pool which flows to Tier II local companies.

⁴⁵ The Commission has addressed the pay telephone component of CCL in a separate proceeding. See In the Matter of the Implementation of the Pay Telephone

With respect to NECA LTS, the Federal-State Joint Board on universal service states: “. . . LTS [should] be removed from the access charge regime and instead recovered from the new federal universal service support mechanism.”⁴⁶

U S WEST concurs. We urge the Commission to act on this recommendation, and eliminate the ILECs' responsibility to serve as a flow-through agent of this support, which currently involves the collection of these amounts through CCL per-MOU rates and the transfer of the revenue to the NECA pool. NECA pool participants should receive any required support directly from the universal service fund. When the ILEC's are relieved of this obligation, the difference between the current LTS payment and the amount the ILECs will be required to pay into the Universal Service Fund for their share of LTS should be removed from the calculation of the CCL recovery amount in conjunction with overall reform of the CCL.

In addition to removal of pay telephone costs and LTS from the CCL, the Commission must address the remaining components of the CCL. The Joint Board states “. . . we conclude that the current usage-sensitive CCL rate structure is economically inefficient and urge the Commission to change the current CCL rate structure so that LECs are no longer required to recover the NTS cost of the loop

Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket Nos. 96-128 and 91-35, Report and Order, FCC 96-388, rel. Sep. 20, 1996, Errata, DA 96-1623, rel. Sep. 27, 1996, Further Errata, DA 96-1666, rel. Oct. 8, 1996, Order on Reconsideration, FCC 96-439, rel. Nov. 8, 1996, Erratum, DA 96-1917, rel. Nov. 19, 1996. The tariffs to implement the Commission's resolution of this issue are scheduled to take effect April 15, 1997.

⁴⁶ In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Recommended Decision, FCC 96J-3, rel. Nov. 8, 1996 ¶ 753 (“Joint Board Decision”).

from IXCs on a traffic-sensitive basis.”⁴⁷ U S WEST agrees with the Joint Board’s conclusion. The current per-MOU mechanism is flawed.

Local loop costs are recovered in three ways: 1) local charges to business and residential customers; 2) the EUCL; and 3) the CCL. The CCL was developed by the Commission at divestiture as a way to limit the EUCL for residential and single-line business customers. The EUCL for multi-line business customers was set at a level to collect most of the loop costs associated with that service.

Since markets drive prices to their costs, it is in the interest of all parties to transition the cost of the CCL to its cost drivers (i.e., end users). However, the Commission appears reluctant to raise the residence and single-line business EUCL immediately. In order to transition the CCL charge to the proper pricing structure, U S WEST recommends a 2-part process.

First, consistent with the Joint Board’s recommendation⁴⁸ and the Commission’s suggestion,⁴⁹ the loop charge should be assessed to the end-user’s presubscribed interexchange carrier (“PIC”) or directly to the end-user, if he has not selected a PIC, and to the purchasers of unbundled loops. All users of the local loop should be required to contribute to the recovery of costs which have been allocated to the interstate jurisdiction. U S WEST prefers this approach to bulk billing because it is easier to administer and it relates the charge directly to the loop, which gives rise to the costs the charge is intended to defray.

⁴⁷ Id. ¶ 754.

⁴⁸ Id. ¶ 776.

⁴⁹ Notice ¶ 60.

In the second step of the process, the Commission would undertake a transition, in which it would remove the charges from the IXCs and impose a flat-rated charge on end users. A reasonable transition period would be over the time it takes to complete separations reform (three years would be reasonable).

2. Carrier Common Line Price Cap Adjustments

If the Commission decides to permit a change in the current recovery of CCL -- as U S WEST believes it should -- a change to the current CCL price cap formula is required. If, as U S WEST recommends, the CCL were assessed on a per-line basis rather than on a per minute basis, productivity would be immediately reduced. The common line price cap index ("PCI") formula in the current LEC price cap plan involves a split of the financial benefits of growth in minutes per line, 50/50 between LECs and access customers. In practice, the common line PCI results in substantially more of the productivity benefits of CCL minutes growth accruing to access customers. Regardless, if CCL recovery is changed from a per-minute charge to a per-loop recovery, the common line PCI formula must be revised to eliminate the growth component.

Another change needed to facilitate a CCL per-loop recovery is a revision to the hypothetical premium terminating rate cap. Currently, the hypothetical premium terminating rate cap is in a per-MOU format. Revising the hypothetical premium terminating rate cap can be done by using a loop divisor. The CCL rate cap would simply be a per-loop rate rather than a per-MOU rate.

3. EUCL

In addition to U S WEST's recommendation that the CCL be transitioned to the EUCL, we comment on specific issues raised in the Notice. The Commission asks whether it should permit or require ILECs to deaverage EUCLs as part of the baseline rate structure that would be imposed on all incumbent price cap LECs.⁵⁰ U S WEST supports optional deaveraging of EUCL charges, in conjunction with optional deaveraging of the CCL per-loop recovery. Costs vary due to population density and geographic characteristics. Efficient economic pricing (which recovers costs from the cost causer) requires that prices reflect these variations. EUCL deaveraging will accomplish this. U S WEST believes that the opportunity for optional deaveraging should accrue to ILECs when the thresholds for Phase 1 pricing flexibility have been met.⁵¹

The Commission proposes to increase or eliminate the cap on the EUCL for second and additional residential customer lines and for all lines for multi-line business customers to the per-line loop costs assigned to the interstate jurisdiction.⁵² U S WEST is opposed to EUCL rate differentiation between primary and secondary lines. There are multiple problems with attempting to address CCL recovery by increasing EUCL recovery on this select group of local services. For one, the distinction between first and second lines will be difficult to determine with local competition. In many cases, one line will be provided by one source and a second line by a different source. For example, an end user will likely have one ILEC line

⁵⁰ Id. ¶ 67.

⁵¹ See Section II.B.1., supra.

⁵² Notice ¶ 65.

(e.g., U S WEST). The end user may choose to purchase the next line U S WEST or an alternative provider (e.g., MCI Metro). Which line is primary and which is secondary? Is the first line purchased by the end user primary, or is first line provided to the end user by a particular provider the first? EUCL rate differentiation for second lines/second homes also creates implementation and administrative problems.

Imposing EUCL increases on second lines also disadvantages the ILECs if the in-place LEC line is considered the primary line. End users will inevitably select different providers for the second line. As such, the second line EUCL increase would result in phantom revenue. U S WEST would receive no revenue from the increase and would, most likely, be forced to give up the opportunity to fully recover the current loop support which is derived from the CCL charges.

B. Local Switching (§§71-79)

With respect to local switching, the Commission tentatively concludes that it is more reasonable and economically efficient to recover dedicated line card costs or line ports through flat charges.⁵³ U S WEST agrees, but believes that the implementation of a flat-rate per-loop recovery charge for the line port should be optional, and at the discretion of the price cap LEC.

U S WEST opposes a total flat rate for shared local switching facilities. As the Commission suggest, the costs are dependent upon lines and trunks, but they

⁵³ Id. ¶ 72.

are also dependent on the usage per line. This usage varies considerably per line, and therefore is appropriately recovered with usage sensitive charges.

The Commission seeks comment on whether it should permit or require ILECs to assess these charges. In general, U S WEST urges the Commission to provide ILECs with pricing flexibility with respect to these elements in order to compete in the marketplace.

The Commission specifically seeks comment on whether ILECs should either be permitted or required to include a call-setup charge in their rate structures.⁵⁴ U S WEST believes that call set up charges and duration charges should be optional. While such a restructure would more closely reflect how costs are incurred, it would require billing system changes, and U S WEST would see no overall revenue changes. The change, however, would not affect all IXC's in the same way; some would see increases in their bills, while others would see decreases. Accordingly, U S WEST believes the Commission should allow each LEC to decide if such a structure fits within the particular LEC's business plans.

Finally, the Commission seeks comment on whether a rate structure that includes peak and off-peak pricing for shared local switching is suitable.⁵⁵ Again, U S WEST opposes such a structure on a mandatory basis. Adoption of such a structure would require numerous recording and billing system changes. In

⁵⁴ Id. ¶ 76.

⁵⁵ Id. ¶ 77.

addition, as the peak varies significantly by end office, it would be very difficult to administer on a true cost-causative basis. Finally, peak hours are not constant.⁵⁶

In short, the rate restructure for Local Switching should be optional, not mandatory. There are considerable implementation and customer impact issues which must be considered by each LEC before it can determine whether and when such changes make sense.

C. Transport (§§80-122)

The Commission seeks comment on whether to revise the facility-based components of the transport rate structure.⁵⁷ While U S WEST generally finds the current rate structure acceptable, we believe that two services require revision, tandem-switched transport and the TIC.

1. Tandem-Switched Transport Services

With respect to tandem-switched transport services, U S WEST supports the Commission's second option. That is, ILECs should be required to assess flat-rated charges for the circuit between the SWC and the tandem, and to apply usage-based rates to the tandem-to-end office link.⁵⁸ This rate structure is most reflective of cost incurred and network used. There would be no IXC network reconfiguration as a result, only pricing changes and modifications to customer records to reflect this restructure.

⁵⁶ These "practical problems" are addressed by the Commission in the Interconnection Order, §§ 756-757.

⁵⁷ Notice § 84.

⁵⁸ Id. § 88.

The rate restructure of tandem switching should be permitted, but not required. LECs should be given the option to continue with the current structure or to set up cost-causative rate elements for the new structure.

In principle, U S WEST concurs that tandem switch costs can be disaggregated into dedicated-facilities cost and shared-facilities cost. LECs opting for the restructure should be allowed to recover the dedicated cost from the IXC that use tandem-switching on a flat-rated basis (e.g., port charge for trunks entering the tandem switch from the SWC) and to recover the shared facilities cost on a usage-sensitive basis.

The Commission also questions whether it should permit or require ILECs to develop peak and off-peak pricing for tandem switching.⁵⁹ As U S WEST noted with peak pricing with respect to local switching, enormous complexities in the implementation of such a structure (e.g., provisioning and billing system changes) and the wide-ranging peaks across regions make it difficult to administer rates on a true cost-causative basis.

Finally, the Commission seeks comment on how to establish a reasonable tandem switching charge in light of the Court's remand in Comptel v. FCC, 87 F.3d. 522 (D.C. Cir. 1996). As discussed fully in the following section, the appropriate charge for tandem switching is a charge that represents the recovery of tandem switching costs. Any other definition of "reasonable" charges is contrary to the 1996

⁵⁹ Id. ¶ 90.

Act. Congress mandated cost-based rates and the removal of implicit subsidies.⁶⁰

Accordingly, the current tandem switching charge must be revised to recover tandem switching costs. All implicit support comprising this charge must be recovered in a competitively-neutral manner, so as not to advantage one group of carriers (or their customers) over another.

The recovery of tandem switching costs, which are real costs to U S WEST, should be accomplished through the application of cost-based tandem switching rates. The Commission should not underprice tandem switching

2. Transport Interconnection Charge

A significant portion of the Notice is devoted to a discussion of the TIC. As correctly described by the Commission in the Notice,⁶¹ the TIC is a per-MOU charge that was instituted at the expiration of the "equal charge per unit of traffic received and delivered" rule of the MFJ as a result of the interim transport rate structure ordered in CC No. Docket 91-213.⁶² Under the rules established in that docket, switched transport rates (direct or tandem) were set roughly equivalent to special access rates. Tandem switching rates were set at an arbitrary 20% of the tandem revenue requirement. The TIC was the residual charge which permitted price cap companies to initially recover the same level of total transport revenues under the new structure as they received under the prior rules (the equal-charge, per-MOU

⁶⁰ 47 USC § 254(e).

⁶¹ Notice ¶¶ 96-97.

⁶² See, e.g., In the Matter of Transport Rate Structure and Pricing, Report and Order, 7 FCC Rcd. 7006, 7008 ¶ 4 (1992), First Memorandum Opinion and Order on Reconsideration, 8 FCC Rcd. 5370-71 ¶ 2 (1993). See also Notice ¶ 81.

basis).

The local transport equal charge rates, prior to price caps and the transport restructure, were derived from a "revenue requirement" which was the result of Commission mandated rules for the allocation of investments and expenses. This mandated cost allocation process predominantly utilized (and still does for data reported in ARMIS) general categorizing and averaging of costs to a great extent -- averaging across technologies, geographical areas (e.g., rural, suburban, urban), services, and jurisdictions. The key drivers in the process were plant investments, with expenses generally following the allocation of plant. Because there were basically only two rate elements for switched local transport, the per minute termination charge and the per minute-mile facility charge, their rates could deviate very little, if at all, from the rate levels resulting from the cost allocations rules.

Special access rates, on the other hand, while adjusted to equal a total special access revenue requirement, were more heavily based on a unit investment approach, which more specifically identified the actual plant used for each service. The unit investments were then used as a basis for loading appropriate overheads. In addition, under the cost allocation process, high cap facilities could be directly identified and assigned to the special access revenue requirement category.

Once rates were set under price cap rules, beginning in 1991, the direct link between rate of return regulation and specific prices was broken, but the price cap basket and banding limitations allowed relatively little annual deviation from original rate-of-return rate levels and rate relationships. The transport restructure

was implemented at the very beginning of 1994, based on 1993 rates and 1992 demand. The transport restructure repriced switched transport services based on special access high cap rates. To a great extent, the TIC which was the resulting difference in revenues between the two pricing schemes, represented the difference in costing methods between the two services -- the local transport rates based predominantly on cost allocation rules that over-assigned costs to local transport and the high cap rates based more on direct identification of costs. Much of the TIC, therefore, represents the averaging of costs across technologies, geographies, and jurisdictions that were inherent in the cost allocation rules that determined the equal charge rates.

"The TIC is a per-minute charge assessed on all switched access minutes, including those of competitors that interconnect with the LEC switched access network through expanded interconnection. The usage-rated TIC increases the per-minute access charges paid by IXC's and long-distance consumers, thus artificially suppressing demand for such services and encouraging customers to bypass the LEC switched access network, particularly through the use of switched facilities of providers other than the incumbent LEC. In addition, to the extent that any portion of the TIC should properly be included in LEC transport rates, other than the TIC, the TIC provides the LECs with a competitive advantage for their interstate transport services because incumbent LEC transport rates are priced below cost while the LECs' competitors using expanded interconnection must pay a share of incumbent LEC transport costs through the TIC."⁶³

U S WEST agrees with the Commission's definition of the TIC and with the Commission's description of the problem created by the continuation of this charge.

U S WEST cannot agree, however, with the Commission's intent to establish a mechanism to "phase out the TIC." The TIC represents the recovery of real costs

⁶³ Notice ¶ 97.

which have been assigned to the interstate jurisdiction in accordance with Commission Rules and Regulations. These costs cannot be “phased out.” The charge recovers real costs which require real cost recovery. The ILECs are entitled to full and complete recovery of the entire TIC amount. Only after these costs are properly reassigned, through separations and rate reform, and rates are rebalanced can the TIC be “phased out.”

The TIC should be addressed in the following manner. As a first step, the identifiable portions of the TIC which should appropriately be recovered in other rate elements must be identified and reassigned. Second, portions of the TIC which can be addressed only through separations reform must be identified and temporarily funded via a support mechanism (until the conclusion of separations reform that allows for alternative recovery). Finally, the portion of the TIC which represents the recovery of transport costs which have resulted from rate averaging (e.g., rural transport support flowing from urban transport) must also be identified and funded through the support mechanism. U S WEST further proposes that the support derived from the fund be transitioned to the end-user through an increasing SLC (until the conclusion of separations reform that allows for alternative recovery).

a. TIC Components To Be Reassigned

Listed below are the portions of the TIC that should immediately be reassigned to other elements. They represent \$190 million of U S WEST's total interstate TIC of \$466 million.

- 80% of the Tandem Cost
- SS7 Network Components Used for Signaling
- Host/Remote Configurations
- Analog End Office Trunk Switch Ports
- Redefined Tandem Switched Transport

80% of Tandem Switching Costs

U S WEST was ordered to remove 80% of its tandem switching cost from the transport element in the Commission's Interconnection Order on the interconnection charge. These are real costs established by Part 36 and Part 69 rules and are being recovered in the TIC. This component of the TIC is estimated to be \$67 million. These costs are incurred to switch tandem access traffic and recovery of these costs is necessary through a repricing of tandem transport charges.

SS7 Network Components Used for Signaling

Costs associated with the signaling network are also recovered in the TIC. These costs were not unbundled in the transport restructure. Signaling links are a major component of this cost and are appropriately recovered in transport charges. U S WEST proposes that signaling costs associated with the TIC should be unbundled and recovered through tandem transport charges. This portion of the TIC is estimated to be \$3 million for U S WEST.

Host/Remote Transport

Host/Remote Transport costs are separately identified by the Part 36 rules. With local transport restructure, costs for these facilities are being recovered by a

Tandem fixed and per minute per mile charge. This recovery mechanism significantly understates the cost of providing the service to the access customer. These costs are incurred regardless of the way the IXC reaches the Host office, i.e., by dedicated or common transport. The links from the host to the remote office are separately identifiable costs which are included in the TIC. This portion of the TIC is estimated to be \$23 million for U S WEST after removing costs recovered at the tandem rates. Recovery of these costs should be through repriced transport charges.

Analog End Office Trunk Switch Ports

In the analog switching environment, the electronics associated with converting an analog signal to a digital signal have been excluded from the transport specific charges and is included in the TIC. This charge is a component of local dial switching in a digital office. Since this function is one that is not required in a special access environment, its costs were not reflected in the special access prices when transport charges were restructured. This is not an issue in digital offices, but represents costs in analog offices that were not taken into account when setting specific rates. In U S WEST, approximately 32% of the switched access lines are served by these switches and this cost is estimated to be \$15 million of the TIC. This cost should be recovered through repriced local switching charges.

Redefined Tandem Switched Transport

In 1992, the Commission adopted a bundled per-minute rate structure for tandem routed traffic from the end office through the tandem to the SWC. This path utilizes two different types of facilities. The first type of facility is common

transport from the end office to the tandem. U S WEST agrees that this charge should be at a fixed and per-minute per-mile charge. The remaining link from the ILEC 's tandem to the SWC of the IXC is a dedicated facility. This dedicated facility is presently being charged to the IXC at the tandem transport rates used for common transport. The Tandem/SWC link is dedicated to a particular carrier and the rate should reflect dedicated charges for this facility.

In the CC Docket No. 91-213 Order, released on October 16, 1992, assumed MOU in the Tandem Transport Rate calculation were 9,000 minutes per month per trunk. Actual experience indicates the usage per trunk is about 5,700 MOU per month. This has contributed to the TIC. Additionally, certain assumptions were made in the formulae prescribed by the Commission that do not include all of the costs, specifically additional multiplexing.

Repricing Tandem Transport to take into account MOU assumptions, additional multiplexing and direct transport charges from the Tandem to SWC will reduce the U S WEST TIC by about \$82 million.

b. TIC Components To Be Addressed
 By Separations Changes

The value of the current TIC results from the application of Part 36 separations rules mutually agreed to by the Federal and State regulators. The Part 69 rules established by the Commission assigned the interstate costs to the access cost elements which are the basis for access rates as modified by the price cap rules. Part 36 rules over assign costs to the interstate jurisdiction and these costs are being recovered in the TIC. Specifically, Central Office Equipment (COE")

Interexchange Circuit Equipment Costs and COE maintenance expense are over assigned to the interstate jurisdiction and are included in the TIC. Correcting the mis-assignment of these costs will reduce the TIC by reassigning these costs to the correct jurisdiction and the correct element of access, i.e., (Common Line, Local Switching, Special Access, etc.). These costs, along with a large portion of the TIC attributable to transport averaging, cost allocations and cost recovery, account for the remaining \$276 million in the TIC.

Central Office Interexchange Circuit Equipment Misassignment

Circuit equipment investment in the interexchange category is allocated between message and private line based on termination counts, i.e., message joint, private line intrastate and private line interstate. Circuit equipment investment records are kept at a level of detail that can identify jurisdictional costs associated with private line services. These private line costs should be directly assigned rather than being allocated with termination counts. The message portion of these costs should be directly assigned to the appropriate jurisdiction where specific costs can be identified and the remainder apportioned using existing usage factors. The distribution of costs to the proper jurisdiction would redistribute costs to the intrastate jurisdiction. The TIC would be reduced due to this reassignment by approximately \$18 million. Other access categories would not be significantly impacted by this realignment.

COE Maintenance Expense Misallocation

Part 36 requires that expenses in the COE accounts (Central Office Switching Expense, Operator Systems Expense and Central Office Transmission